A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Public Health and Human Services

For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

LEGISLATIVE AUDIT DIVISION

11-14

Legislative Audit Committee

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LEGISLATIVE AUDIT DIVISION

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October 2011

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Public Health and Human Services for the two fiscal years ended June 30, 2011. This report includes issues related to internal controls over federal programs, federal questioned costs, and compliance with state laws and federal regulations.

We thank the director and her staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

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Appointed and Administrative Officials

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	Laurie Lamson, CPA, Operations Services Branch Manager
	Mary Dalton, Medicaid and Health Services Branch Manager
	Hank Hudson, Economic Security Services Branch Manager
	Lou Thompson, Administrator, Addictive and Mental Disorders Division
	Marie Matthews, Administrator, Business and Financial Services Division
	Sarah Corbally, Administrator, Child and Family Services Division
	Lonnie J. Olson, Administrator, Child Support Enforcement Division
	Linda Snedigar, Administrator, Human and Community Services Division
	Bob Runkel, Administrator, Development Services Division
	Terry Krantz, Administrator, Health Resources Division
	Ron Baldwin, Administrator, Operations and Technology Division
	Jane Smilie, Administrator, Public Health and Safety Division
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Montana Legislative Audit Division

Financial-Compliance Audit
Department of Public Health and Human Services
For the Two fiscal years ended June 30, 2011

October 2011 | 11-14 | Report Summary

The Department of Public Health and Human Services operates a portfolio of medical, economic assistance, and public health programs to serve Montanans. Many of these programs are counter-cyclical, with increases in demand for services coinciding with downturns in employment, income, and state revenues. We questioned $285,118 in costs charged to federal grants.

Context

Department expenditures during the past fiscal year included $1,288,782,706 in federal funds and $508,777,127 in state matching funds. Thirteen federal programs comprised 92 percent of the federal expenditure total. Medicaid and Supplemental Nutrition Assistance Program (SNAP) are the largest of these programs, but Child Health Insurance Program, Low Income Energy Assistance Program (LIEAP), Weatherization, Women, Infants, and Children, Child Care and Development, and Temporary Assistance for Needy Families (TANF) each incurred expenditures greater than $25 million for the two fiscal years ended June 30, 2011. The department received increased federal funding throughout the biennium from the American Recovery and Reinvestment Act through increased federal participation rates and direct supplements to grant programs. The department expended $3.5 billion in the two fiscal years ended June 30, 2011.

The department also operates mental health, developmental disabilities, and long-term care facilities. The department contracts for Medicaid claims processing services and manages a number of information systems to handle eligibility, contractor payments, and other data intensive elements of its programs.

Results

The report includes 15 recommendations to improve controls and enhance compliance with provisions of state law, federal regulations, and state accounting policy. Issues addressed include expending moneys from funds other than those where the costs were incurred to avoid short-term appropriation deficiencies, making payments to federal agencies, and expending general fund before nongeneral fund sources.

The report recommends correcting deficiencies in contract compliance for TANF and Foster Care contracts, limiting LIEAP grant carryforward to the level allowed by federal law, and following state regulations on sole source procurement. The audit also addresses financial reporting controls related to Foster Care and Vocational Rehabilitation federal programs, physical controls over SNAP electronic benefit cards, and the monitoring processes for TANF and LIEAP subgrantees.

The department implemented all of the 14 recommendations made in the previous audit.

(continued on back)

Recommendation Concurrence	
Concur	15
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (11-14#) or for further information, contact the
Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at
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Call toll-free 1-800-222-4446, or e-mail **lad@mt.gov**.

Chapter I – Introduction

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Public Health and Human Services (department) for the two fiscal years ended June 30, 2011. The objectives of the audit were to:

1. Determine whether the department complied with selected applicable state laws and federal regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of operations and changes in fund balances and property held in trust for each of the two fiscal years ended June 30, 2011.

This report contains 15 recommendations to the department. These recommendations address areas where the department can improve internal controls and compliance with state laws and federal regulations. In accordance with §5-13-307(2), MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

The department spent approximately $1.8 billion in fiscal year 2010-11, and $1.7 billion in fiscal year 2009-10, administering a wide spectrum of social service and health programs for the state of Montana. The programs include Medicaid, foster care and adoption, nursing home licensing, long term care, aging services, alcohol and drug abuse, mental health services, vocational rehabilitation, disability services, child support enforcement activities, and public health services, including communicable disease control and preservation of public health through chronic disease prevention.

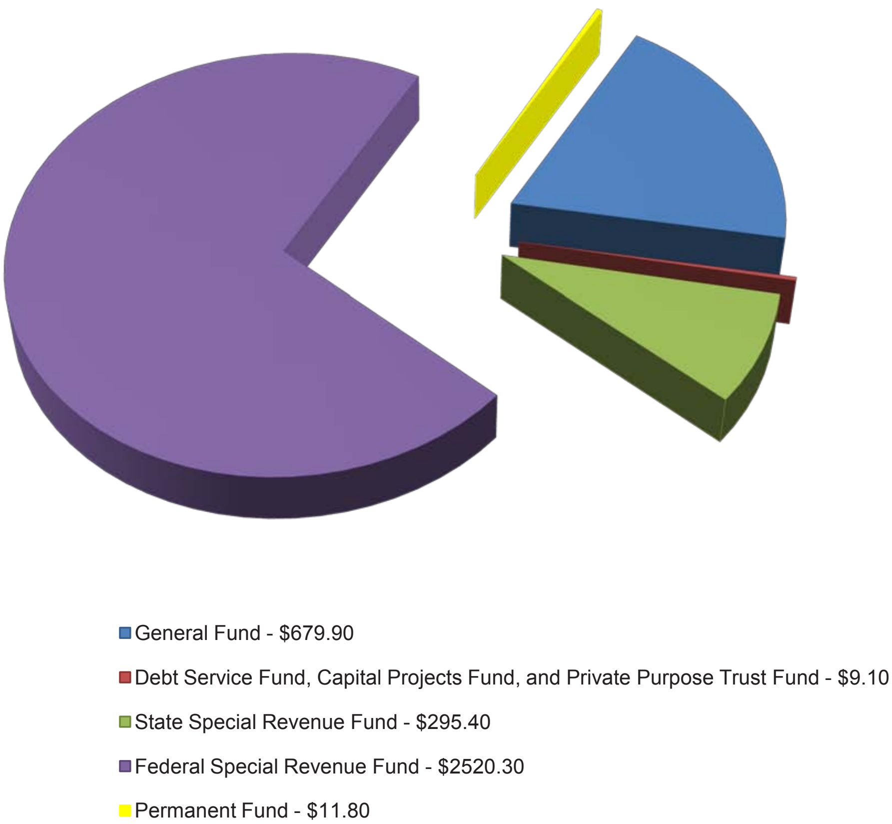
Department facilities, by location, include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Facility, Lewistown; Montana Chemical Dependency Center, Butte; Eastern Montana Veterans Home, Glendive; Montana Veterans Home, Columbia Falls; and Montana Developmental Center, Boulder.

Total expenditures by fund for the two fiscal years ended June 30, 2011, are identified in Figure 1. Benefits and Claims expenditures account for approximately 78 percent of the total expenditures.

Figure 1

Expenditures by Fund for the Two Fiscal Years Ended June 30, 2011

Amounts in Millions



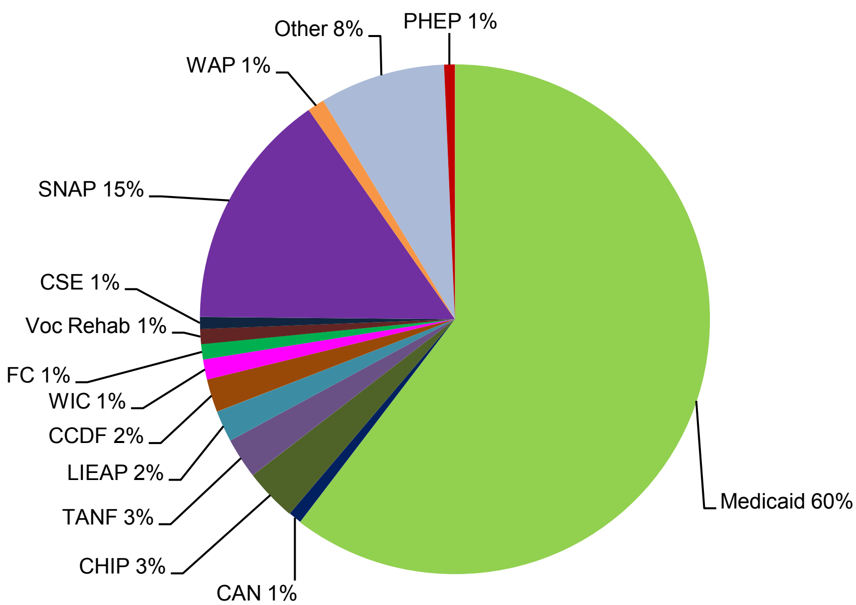
Source: Compiled by the Legislative Audit Division from department accounting records.

Federal regulations provide guidance to define major federal programs for the state of Montana subject to audit. We audited 13 department programs with expenditures ranging between $17.19 million and $1,525.78 million for the two fiscal years ended June 30, 2011, as major federal programs. We spent substantial audit effort determining whether these programs are operated in compliance with federal regulations. Figure 2 identifies these programs and the related expenditures recorded on the state's accounting records.

Figure 2

Federal Program Expenditures for the Two Fiscal Years Ended June 30, 2011

Amounts in Millions



Medicaid	$1,525.78
Supplemental Nutritional Assistance Program (SNAP)	382.96
Other NonMajor Federal Programs (Other)	200.69
Children's Health Insurance Plan (CHIP)	84.32
Temporary Assistance for Needy Family Program (TANF)	64.85
Child Care Development Fund (CCDF)	53.16
Low Income Energy Assistance Program (LIEAP)	50.35
Women, Infants, and Children (WIC)	32.02
Weatherization Assistance Program (WAP)	27.38
Foster Care (FC)	24.40
Vocational Rehabilitation Grant to States (Voc Rehab)	23.97
Child and Adult Nutrition (CAN)	21.01
Child Support Enforcement (CSE)	19.09
Public Health Emergency Preparedness and Response (PHEP)	17.19
Total	**$2,527.17**

Source: Compiled by the Legislative Audit Division from department records.

Changes in Social Services

Benefits and claims expenditures totaled $2.2 billion in the 2009 biennium and $2.7 billion in the 2011 biennium. This increase of 22.7 percent resulted from growing caseloads and a weaker economy. Table 1 below shows changes in caseloads for selected programs from 2010 to 2011.

Table 1

Department of Public Health and Human Services
Caseload Analysis for TANF, Medicaid, CHIP, and SNAP

	June 2011	June 2010	Percent Change
Temporary Assistance to Needy Families (TANF)	3,400	3,748	-9.28%
Medicaid Title 19 (Physical health)-Unduplicated	99,659	91,951	8.38%
Medicaid Mental Health	11,577	11,384	1.70%
Childrens Health Insurance Program-Enrolled (CHIP)*	18,461	16,837	9.65%
Supplemental Nutrition Assistance Program (SNAP)	58,455	52,528	11.28%

*Used May data due to a 60 day lag for enrolled CHIP information.
Note: An individual may participate in multiple programs, so the caseloads may be duplicated counts.

Source: Compiled by the Legislative Audit Division from department records.

Organizational Structure

During the two years ended June 30, 2011, the department was organized into 3 branches and 11 divisions. Descriptions of the branches and divisions are provided below. The department's organization chart and employee full-time equivalent position allocations at July 1, 2011, are shown in Figure 3 on page 7.

The Director's Office provides overall policy development and administrative guidance to the department. The Director's Office staff includes legal affairs, public information, human resources executive support, preventive resources center, planning, coordination and analysis, and health policy services. The Native American Advisory Council, and the Montana Health Coalition are administratively attached to the department and the director serves on the Interagency Coordinating Council for State Prevention Programs, which is attached to the Governor's Office.

The Operations Services Branch includes the Office of Fair Hearings. It also includes the following divisions:

- The Business and Financial Services Division provides services for the department including financial and accounting oversight, department wide

budget monitoring and support, cash management, preparation and filing of federal financial reports, purchasing of supplies and equipment, payroll processing, audit coordination, lease management, mail handling, property and records management, accounts payable, and facility reimbursements.

- The Quality Assurance Division monitors and ensures the integrity and cost effectiveness of programs administered by the department. Services include: oversight of health and day-care providers; detection and investigation of fraudulent practices affecting Medicaid, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program; identification of parties responsible for paying client medical expenses; oversight of internal and external independent audits for department programs; and provide hearings for clients and providers participating in department programs.
- The Technology Services Division provides technological support in areas critical to the implementation of department programs.

The Medicaid and Health Services Branch includes the Medicaid Systems Support Program and Healthy Montana Kids Program. It also includes the following divisions:

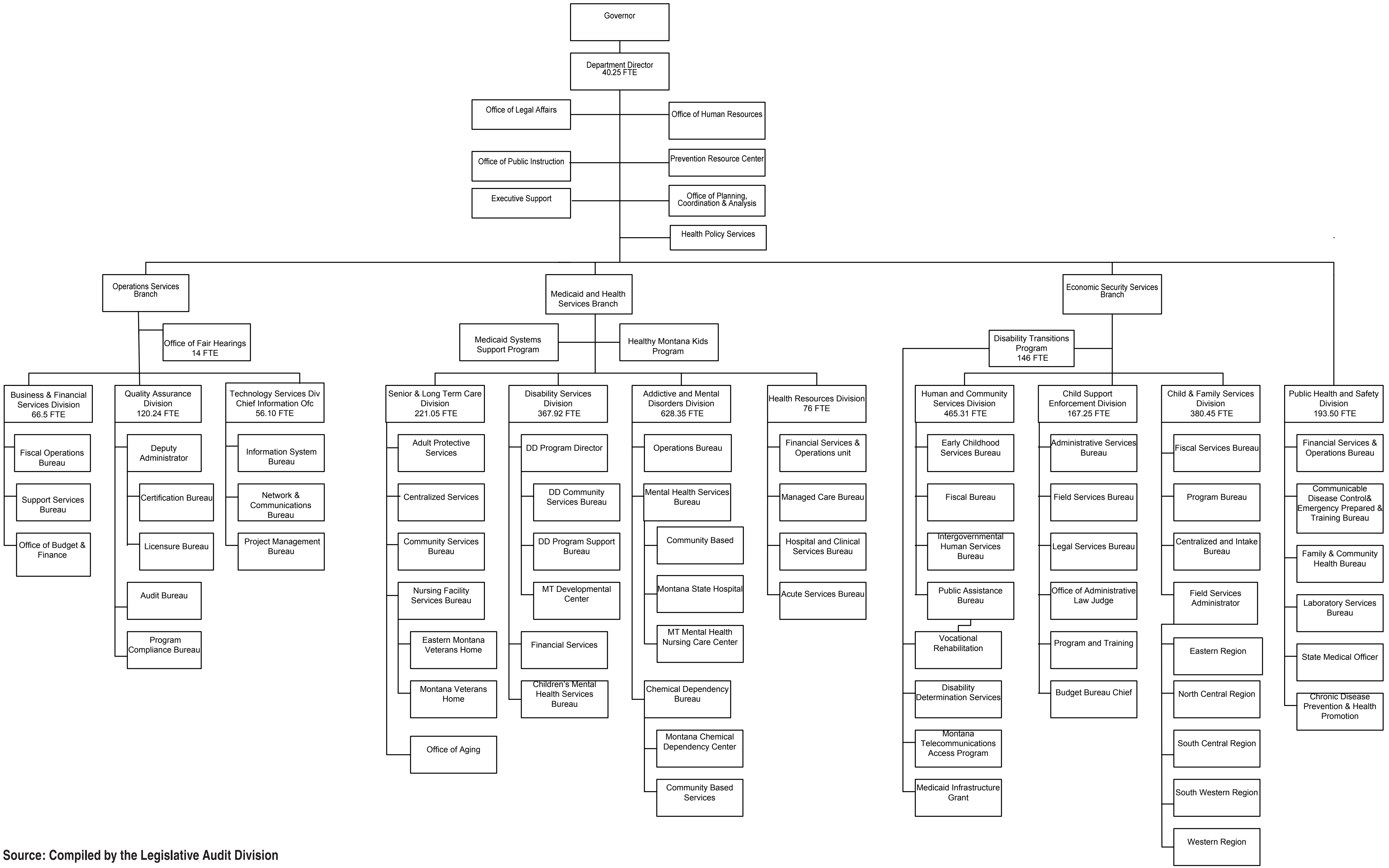
- The Senior and Long Term Care Division administers and provides publicly-funded long term care for Montana's senior citizens and persons with physical disabilities through programs consisting of the Office on Aging, Medicaid community and nursing services, the state's two veterans' homes, protective services, and supplemental payments for SSI eligible individuals residing in designated residential care facilities.
- The Disability Services Division provides services that help Montanans with disabilities to live, work, and fully participate in their communities. The division provides or contracts for institutional care, residential services, home-based services to families, case management, children's mental health services, and a variety of employment outcome-related services. The division operates the Montana Developmental Center in Boulder and administers the Developmental Disabilities Program.
- The Addictive and Mental Disorders Division implements and improves a statewide system of prevention, treatment, care, and rehabilitation for Montanans with mental disorders or addictions to drugs or alcohol. The division achieves this by contracting for chemical dependency and adult mental health services with behavioral health providers. It also provides services in inpatient facilities at Montana State Hospital in Warm Springs, Montana Chemical Dependency Center in Butte, and Montana Mental Health Nursing Care Center in Lewistown. In addition, the Medicaid program funds outpatient and residential chemical dependency treatment for adolescents who are Medicaid recipients.
- The Health Resources Division administers Medicaid primary care services, the Children's Health Insurance Plan, and Big Sky Rx, to improve and protect the health and safety of Montanans. The division reimburses private and public providers for a wide range of preventive, primary, and acute care services.

The Economic Security Services Branch includes the Disability Transitions Program. It also includes the following divisions:

- The Human and Community Services Division supports the strengths of families and communities by promoting employment and providing the assistance necessary to help families and individuals meet basic needs and work their way out of poverty. The program provides cash assistance, employment training, Supplemental Nutritional Assistance Program, Medicaid benefits, early childhood care, energy assistance, weatherization, emergency shelter, and distribution of United States Department of Agriculture commodities.
- The Child Support Enforcement Division obtains medical and financial support for children by establishing, enforcing, and collecting financial support owed by obligated parents. Services include locating absent parents, identifying assets, establishing paternity, and ensuring parents maintain medical health insurance coverage for their dependent children.
- The Child and Family Services Division provides protective services to children who are abused, neglected, or abandoned. This includes receiving and investigating reports of child abuse and neglect, helping families to stay together or reunite, and finding placements in foster or adoptive homes.

The Public Health and Safety Division oversees the coordination of the public health system in Montana. The division provides a wide range of public health services to individuals and communities that are aimed at prevention of disease and promotion of health. Programs include: clinical and environmental laboratory services, chronic and communicable disease prevention and control, maternal and public health services, public health emergency preparedness, Women's Infants and Child Special Nutrition Program, food and consumer safety, tobacco cessation and prevention programs, and emergency medical services.

Figure 3
Department of Public Health and Services
Organizational Chart by Bureau



Source: Compiled by the Legislative Audit Division

Questioned Costs

In the report sections that follow, we identify, as questioned costs, expenditures of federal assistance that we believe do not comply with regulations of the federal program. Under federal audit requirements, the auditor questions costs associated with an audit finding when the costs result from a violation or probable violation of law or regulation governing the use of federal funds, when the costs are not supported by adequate documentation at the time of the audit, or when the costs incurred appear unreasonable. When federal program personnel resolve the audit issues and set corrective action plans, the federal government may require repayment, reduce the current federal award, or take no financial action on the questioned cost. Table 2 summarizes the federal questioned costs we identify in the report.

Table 2
Summary of Questioned Costs
For the Two Fiscal Years Ended June 30, 2011

Grant Title	Amount of Known Questioned Costs	Page
Temporary Assistance to Needy Families	$285,118	12

Source: Compiled by the Legislative Audit Division.

Prior Audit Recommendations

The department implemented all 14 of the prior audit recommendations.

Chapter II– Findings and Recommendations

Transferring Funds Without the Appropriate Authority

The department temporarily used appropriation authority from nonrelated programs in order to process expenditures through SABHRS.

Article VIII, Section 14 of the Montana Constitution prohibits payment of money from the state treasury without an appropriation made by law. During the general appropriations process, the Legislature authorizes expenditures of federal funds. Approved appropriation authority is entered into the Statewide Accounting, Budgeting and Human Resources System (SABHRS) for each program. SABHRS will not allow an agency to spend more than the approved appropriation authority. If, during the fiscal year, the department estimates expenditures will exceed approved appropriation authority in a program, a Budget Change Document (BCD) is submitted to the approving authority. Section 17-7-139(1), MCA, states the approving authority may approve agency requests to transfer appropriations between programs within each fund type within each fiscal year unless prohibited by law or a condition in the general appropriation act. All program transfers must be completed within the same fund from which the transfer originated.

During fiscal years 2009-10 and 2010-11, we identified the following instances where the department did not follow state law:

- In fiscal year 2010-11 the department had excess federal funding available in a program with insufficient appropriation authority. The department submitted several BCD's to the approving authority, Office of Budget and Program Planning (OBPP), requesting additional appropriation authority in the affected program. At the time of the requests, OBPP was not approving BCDs due to the Legislative session. OBPP combined similar requests from various agencies into the Supplemental Authority bill for approval by the Legislature. In order to process previous and current federal program expenditures before the supplemental authority was approved, the department initiated approximately $7,816,930 in temporary (TEMP) journals which paid bills with appropriation authority from another nonrelated federal program.
- In both fiscal years, the department initiated approximately $1,202,111 in various TEMP journals to move expenditures from state special revenue funds into federal special revenue funds or the general fund. The movement of expenditures was initiated since the state special revenue funds did not have sufficient appropriation authority. In effect, the general fund and federal special revenue fund paid bills of the state special revenue fund. Movement of the expenditures allowed the expenditures to post in SABHRS until submitted BCDs could be approved by OBPP. Once the BCDs were approved, the TEMP journals were reversed posting the costs in the correct fund.

A department manager said the department used the TEMP journals as a work around to ensure all necessary expenditures posted. The department considered the use of TEMP journals as a viable solution to the appropriation restrictions of SABHRS. Each separate transferring of expenditures did not impact cash in any fund, rather temporarily moved activity from one fund to another, a department official said. However, the validity of the expenditures is contingent upon legislative approval of additional authority. At the time the department expended funds with TEMP journals, it lacked the appropriation authority to do so.

Recommendation #1

We recommend the department:

A. *Expend money from the state treasury using appropriation authority approved by law as required by the Montana Constitution.*

B. *Charge expenditures to the programs and funds against the appropriation authority approved for the expenditure made.*

Foster Care

The department administers foster care services for Montana children. To operate its foster care program, the department received federal assistance of $11,206,013 and $13,190,599 in fiscal years 2010-11 and 2009-10, respectively.

Repayment of Federal Funds

Errors in reporting foster care expenditures led to unnecessary repayments to the federal government.

The department submits quarterly financial status reports to the federal grantor agency, identifying both federal and state share disbursed. In tests of data on three of these quarterly reports, we noted errors on two of the reports.

The department recorded foster care expenditures on the state's accounting records for the period ending June 30, 2010, for costs incurred but not billed or paid as of that date. In August 2010, department personnel reduced expenditures for state fiscal year 2009-10 by the amount of the expenditures accrued for the previous fiscal year, then recorded prior year expenditures for those costs when bills were paid. As payments occurred, the department drew cash from the federal grantor for the federal share of the costs. However, when department accountants prepared the federal report for the

quarter ended September 30, 2010, the amount paid in the period for costs incurred in the previous fiscal year was not included. As a result, the department understated expenditures by $1,325,543 on the quarterly report. After filing the report, department personnel discovered the error and submitted corrections of the December 31, 2010, quarterly report.

In response to the reported understatement, the federal government reduced authority for the grant in the September quarter and requested repayment of the amount by which cash draws exceeded reported expenditures. The department paid the federal government $1,325,543 as requested in January 2011, even though the department personnel knew the request was based on a reporting error rather than a draw of excess funds by the department. We found that the department did not have a management process to review federal claims prior to payment. Consequently, the federal government held the state general fund money for four months before returning it.

Recommendation #2

We recommend the department establish procedures for management approval of high dollar repayments to federal assistance programs.

Foster Care Tribal Contracts

The department accepted time and effort documentation other than that specified in its case management contracts.

The department contracts with various Montana tribes for case management services in the Foster Care program. Attachments incorporated into each contract require monthly time samples showing employee activity for five consecutive days for all individuals whose positions receive Title IV-E Foster Care funding. The time samples are used to determine the average amount of time spent providing services to Title IV-E eligible children during the previous year, and the average is then used as the basis for reimbursement for each employee under the tribal contract.

Rather than requiring a time sample for one employee in June 2010, the department accepted an additional week of data for May 2010. For another contractor, we noted department files contained time samples for three months of the 2010-11 fiscal year when nine should have been reported. As a result of the audit observation, the department requested and received the time samples. Department employees indicated

that they view the contract attachments as guides to establish consistencies among the tribes rather than requirements. Under current contracts, the attachment provisions are an integral part of the contract requirements.

Recommendation #3

We recommend the department obtain time verification for each tribal employee whose position is funded by Title IV-E money as required by foster care case management contracts.

Temporary Assistance for Needy Families (TANF)

The department expended $33,328,585 and $31,728,955 in federal TANF funds in fiscal years 2009-10 and 2010-11 for cash assistance, employment skills training, and other services designed to move families toward economic self sufficiency. To achieve these objectives, the department initiated approximately $19.8 million and $12.3 million in contracts to subrecipients in fiscal years 2009-10 and 2010-11, respectively, to provide services to eligible TANF households.

Contract Monitoring

The department did not require subrecipients to prepare written program improvement plans to correct deficiencies documented in annual onsite reviews conducted by the department.

Federal regulations require the department to maintain internal control over the TANF program sufficient to provide reasonable assurance that funds from the TANF award are expended in compliance with laws, regulations, and the provisions of contracts or grant agreements. In addition, federal regulations require the department to monitor the activities of subrecipients as necessary to ensure that TANF awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements. The department reviews financial audits submitted by the subrecipients and performs annual fiscal reviews of its subrecipients.

For one subrecipient, the department found problems in two of three annual reviews. Consequently, TANF program staff requested specific procedures be performed at the subrecipient level by the department's Audit Bureau to determine whether certain expenditures charged to the TANF grant were allowable costs under the contract with the subrecipient. The report prepared by the Audit Bureau identified $285,118

in subrecipient expenditures reimbursed by the department which could not be substantiated as allowable costs under the contract. After reading the report, we concur with the department's identification of these charges as questioned costs.

To determine why unallowable costs continued over a period of four years, we examined the design of the department's annual fiscal reviews. For the three most recent fiscal reviews, two identified potential issues. However, the subrecipient did not submit a corrective action plan after receiving either of these fiscal review reports. The department's contract with the subrecipient stated,

> "In the event the review indicates Contractor noncompliance with the terms and conditions of this contract, the Contractor will submit, within thirty (30) calendar days of receipt, a written program improvement plan detailing actions and time lines for correcting the deficiencies causing Contractor noncompliance. The Department shall respond in writing within fifteen (15) days accepting or rejecting the Contractor Program Improvement Plan and establish a date to evaluate progress of the Plan. If satisfactory progress is not made within the allotted time frame, then a formal corrective action amendment to this contract will take place."

By not enforcing the contract requirement for the subrecipient to submit a written program improvement plan, the department allowed problems identified by their staff to persist and not be corrected. Department staff said that prior management personnel did not enforce the contract requirement for a written program improvement plan. The current manager was not aware that the contract required the subrecipient to submit a plan.

Recommendation #4

We recommend the department enforce provisions of its contracts with TANF subrecipients regarding submission of a program improvement plan and evaluation of progress in implementing the plan.

TANF Eligibility

The department does not require a review of eligibility information input by the case workers and does not track the recovery of overpayments.

The TANF program provides cash assistance to needy families. Department case workers determine eligibility of applicants for TANF assistance. At the time of application, the case worker obtains evidence of eligibility and enters the information into The Economic Assistance Management System (TEAMS). Edits within TEAMS determine eligibility and calculate the amount of monthly assistance based on the information input by the case worker. Federal regulations require the department to implement control procedures to attain reasonable assurance that the department, as a recipient of federal awards, complies with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. We found the department no longer requires supervisory reviews of the completeness and accuracy of eligibility information obtained by case workers and input into TEAMS.

One eligibility requirement to receive TANF is for certain individuals to participate in allowable work activities while receiving TANF cash assistance. If a family does not meet participation requirements, and does not have good cause for failing to meet the requirements, they may be disqualified from receiving benefits. This is known as a sanction. We noted two instances from the 29 cases we reviewed where a TANF recipient was sanctioned for not fulfilling the work participation requirement and received benefits that should have been recovered. The recipient received benefits during the sanctioned month while a fair hearing was scheduled. In one case, the recipient did not show up for the fair hearing and in the other case the recipient withdrew the request for the fair hearing. Federal regulations require the department to terminate or reduce the amount of assistance when a family receiving assistance refuses to engage in work. Both instances constitute refusal to engage in work.

Department staff said the policy for two supervisory reviews of files each month on each case worker has been discontinued because of increased workloads in public assistance offices throughout the state. A department staff said fair hearing cases which involve a request for continued benefits occur infrequently, so the requirement to establish an overpayment is not familiar to many case workers.

Recommendation #5

We recommend the department:

A. *Reestablish the requirement for reviews of TANF eligibility information input by case workers.*

B. *Implement a control to ensure that assistance to the family is reduced or terminated when an individual refuses to engage in required work.*

Low Income Energy Assistance Program (LIEAP) and Weatherization Assistance Program (WAP)

The department offers two programs aimed at helping low-income individuals reduce their heating costs. LIEAP provides assistance to pay winter energy bills to those who qualify. The LIEAP program expends approximately $28 million each fiscal year. WAP helps qualified participants improve the heating efficiencies of their homes, thereby reducing their energy consumption. WAP expended over $12 million and $14 million in American Recovery Reinvestment Act funds (ARRA) during fiscal years 2009-10 and 2010-11, respectively. The department contracts with 11 area agencies throughout the state to administer the services funded by these federal programs.

Subrecipient Monitoring

The department did not complete onsite reviews for all area agencies and did not distribute monitoring reports within the required timeframe.

The LIEAP state plan requires the department to conduct onsite monitoring reviews of administering agencies on an annual basis. After completing the onsite visits, WAP regulations require the department to submit a monitoring review report to the administering agency within 30 days. In fiscal year 2009-10, the department did not conduct any onsite monitoring reviews for one administering agency. During both fiscal years, the department submitted 15 monitoring reports to administering agencies, with 14 reports sent more than 30 days after the onsite visit. The 30-day requirement for submitting the report to administering agencies was overlooked, a department manager said. As a standard practice, the department used a 60-day report turnaround period. Of the 15 reports submitted, we noted five reports were submitted more than 60 days after the onsite visit.

Recommendation #6

We recommend the department:

A. *Complete the monitoring of administering agencies as required by the state plan.*

B. *Submit administering agencies' onsite monitoring reports within the 30 day timeframe required by federal regulations.*

Benefit Overpayments

LIEAP benefit overpayments are not recouped by the department.

The department contracts with local administering agencies to assess eligibility of applicants for LIEAP benefits. The department pays the energy provider or the applicant an amount to offset energy costs, based on eligibility assessed by the agencies. During its monitoring visits, department personnel determine whether the agencies properly assess applicant eligibility.

Federal regulations require the department to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes. The department directs the administering agencies to reimburse the department when overpayments occur due to agency errors as part of a corrective action plan. We reviewed 100 percent of the monitoring reports for fiscal years 2009-10 and 2010-11. Three of eight administering agency monitoring reports contained corrective action plans to repay the department for benefit overpayments caused by agency errors. As of May 2011, the department had not followed up on these corrective action plans, so $3,541 of unallowable program costs had not been returned to the department.

A program manager said the department's current policy does not require follow-up on repayment corrective actions earlier than the subsequent monitoring visit which usually occurs at least a year later.

Recommendation #7

We recommend the department implement procedures to recover LIEAP overpayments identified in corrective action plans from its administering agencies.

Period of Grant Availability

The department exceeded the 10 percent limit for carrying grant funding authority forward to the following fiscal year.

Per Federal regulations, at least 90 percent of the LIEAP block grant must be used in the federal fiscal year in which it is appropriated. Up to ten percent of the funds may be carried forward for obligation during the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned.

In federal fiscal year 2009-10, the department received $27,883,283 in federal LIEAP funds. The maximum carry forward amount was $2,788,328. However, the department carried forward $3,110,803 to federal fiscal year 2010-11, $322,474 more than the federally allowed 10 percent.

According to the department, subgrantee administration obligations were counted twice. Currently, a single individual determines and verifies the amounts obligated. The department does not have a review process to confirm the financial information compiled in the report has been properly calculated. In May, subsequent to audit procedures, the department implemented corrective action to reduce the excess carry forward

Recommendation #8

We recommend the department implement internal controls over calculating and compiling financial information supporting carryforward to ensure compliance with federal regulations.

American Recovery and Reinvestment Act (ARRA) Contract Requirements

Weatherization contracts with administering agencies did not include federal award identification numbers as required by ARRA.

Federal regulations require ARRA award recipients to identify the federal award number, catalog of federal domestic assistance number, and amount of ARRA funds to each subrecipient at the time the assistance is awarded. The department did not provide the federal award number to its subrecipients of ARRA Weatherization funding.

We tested eleven contracts. None disclosed the federal award number. However, the contracts did include the assistance number and the amount of the award.

Department staff administering the Weatherization program said they rely on the central legal office to provide them with the contract forms and language for all contracts. In addition, the Weatherization program personnel said they were not aware of the ARRA compliance requirement, so they were unable to prevent or detect the noncompliance.

RECOMMENDATION #9

We recommend the department comply with the federal ARRA requirement to disclose the federal grant award number to subrecipients.

Vocational Rehabilitation

The department administers a program to provide vocational rehabilitation for individuals whose disabilities present a barrier to obtaining and holding employment. To finance costs associated with vocational rehabilitation, the department expended federal funding of $12,863,250 and $12,561,328 in fiscal years 2009-10 and 2010-11, respectively. The following sections discuss errors in federal financial reporting, lack of written control documentation, and use of program income.

Financial Reporting

The department submitted financial reports for vocational rehabilitation funding later than required by federal regulations and with errors in data.

Federal regulations require the department to submit a financial status report twice a year for each of its current vocational rehabilitation grants. The reports are due 45 days after the end of the reporting period. We noted that the report for the federal fiscal year 2009-10 grant for the period ended September 30, 2010, was submitted June 22, 2011, and the report for the period ended March 31, 2011, had not been submitted as of June 30, 2011. We also noted that the report for the federal fiscal year 2010-11 grant for the period ended March 31, 2011, was submitted within 45 days. A department official said the program analyst position charged with preparing the reports was filled in December 2010 after being vacant for most of the previous five months. In addition, the department did not have written procedures related to grant reporting, making it more difficult for new personnel to master the reporting function.

We tied the September 30, 2010, and March 31, 2011, reports, described above, to support in the state's accounting records. On both reports, the department understated the state resources spent by the department on vocational rehabilitation and made errors in reporting indirect costs charged to the grant. On the September 30, 2010 report, state resource effort was understated by $597,396. Such an understatement could cause the federal grantor to conclude that the state had not met its obligations under the grant or request return of current grant funds. The department also overstated its share of expenditures connected with committed funds that have not yet been spent by $57,019, thereby increasing the risk of spending more state money on the program than is actually required. The amount reported for indirect costs exceeded the amount on the accounting records by $6,583. Subsequent to our work, the department filed an amended version of this report correcting these errors. On the March 31, 2011 report, the department claimed $20,394 less in state resource effort than was recorded on the state's accounting records. The department also omitted three entries describing the department's indirect cost allocation plan. In addition to unfamiliarity with the financial data reported, caused by turnover, we found department personnel had not used the most recent guidance on completing the report provided by the grantor agency.

Federal regulations require the department to maintain internal control over federal programs that provides reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. State accounting policy states that internal control systems should be clearly documented and the documentation should be readily available for examination at each agency. By documenting controls related to management of the vocational rehabilitation grant, the department can facilitate continuity of its control system when employees responsible for certain tasks leave or take other positions and reduce the time required for new employees to learn the control functions.

Recommendation #10

We recommend the department:

A. *Submit financial reports for the vocational rehabilitation grant in the timeframe required by federal regulations.*

B. *Report information for the vocational rehabilitation grant supported by the state's accounting records.*

C. *Document internal controls associated with financial operations of its vocation rehabilitation grant in writing as required by state accounting policy.*

Use of Program Income

The department uses general fund money before vocational rehabilitation program income and should record program income as revenue when received.

The vocational rehabilitation program provides a broad range of services to assist, find, or maintain employment for eligible individuals with disabilities. The department receives program income, which is earned when a Social Security recipient returns to the workforce through the benefits provided by the vocational rehabilitation program and no longer receives Social Security benefits.

Federal regulations allow the department to use program income to increase the amount of the total grant award for that year. Per §17-2-108, MCA, the department should expend nongeneral fund money whenever possible before using general fund appropriations. Current department practice is to spend regular program funds, which require a state match, before using the program income. Therefore, the department is using general fund money before nongeneral fund money.

In fiscal year 2009-10, the department deferred recognition of $1,044,064 in program income which should have been recorded as revenue. State accounting policy states revenue is recognized when it is realizable, measurable, has been earned, and is available. Under state policy, the program income, which is earned when social security recipients return to the workforce, should be recorded as revenue when it is received.

According to department management, the department does not spend the program income unless it has met the state spending level required by federal regulations for the vocational rehabilitation program. Federal regulations allow the department to spend the vocational rehabilitation grant funds before using program income, a financial manager said. However, allowability under federal regulation does not remove the requirement in state law. The department also spends vocational rehabilitation grant moneys prior to spending ARRA funds, which, like program income, have no state matching requirement.

RECOMMENDATION #11

We recommend the department:

A. *Use nongeneral fund money before general fund money as required by state law.*

B. *Record payments from Social Security Administration as revenue when received as required by state accounting policy.*

Electronic Benefit Card Control

The department does not have effective internal controls over returned Supplemental Nutrition Assistance Program (SNAP) Electronic Benefit Transfer (EBT) cards.

The department provides EBT cards to SNAP recipients to purchase food in authorized retail stores. The EBT cards are similar to debit cards. Federal regulations require the department to establish control procedures to safeguard cards similar to those used to protect currency. These include storing the cards in a locked location and requiring dual signatures to remove the EBT cards from storage and reissue them.

We reviewed documentation for 14 SNAP EBT cards mailed to beneficiaries which were returned to the department as undeliverable. We found four instances in which department personnel did not follow controls to safeguard EBT cards. By not following the procedure of two employees signing the log approving reissuance of returned EBT cards, the department has increased risk of theft and misuse of those cards.

A department manager said employee oversight and a vacant EBT supervisor position contributed to the lapse in control. The EBT supervisor position became vacant in October 2010, and has been held open for vacancy savings, the manager said. The review of EBT card safeguards usually performed by the supervisor position was not assigned to other staff.

Recommendation #12

We recommend the department follow its control procedures for safeguarding EBT cards to maintain compliance with federal requirements.

Procurement Controls

The department does not have effective internal controls over procurement suspension and debarment.

Federal regulations require agencies to verify that a contractor is not suspended or debarred. The department's policy requires the contract manager to sign and date a form entitled "Federal Debarment Certification" to verify that the federal "List of Parties Excluded from Federal Procurement and Nonprocurement Programs" has been reviewed at the beginning of the contract and annually thereafter.

We reviewed all contracts that had activity over $100,000 during our audit period, which totaled 17 contracts in four divisions. Of those reviewed, three contracts did not have evidence of any review for suspension and debarment. One division has changed its internal process to include the suspension and debarment language in the contract, rather than completing the form. This process does not follow department policy. None of the divisions checked the federal listing annually as required by department policy. These situations increase the potential risk of using federal and state funds while contracting with a firm that is suspended or debarred. For each contract reviewed we checked the federal list to confirm the contractor had not been suspended or debarred.

Division personnel could not explain why the form was not included with the contract for one of the occurrences. In the two other incidences, division personnel stated they were not aware of the requirement to use the form. Personnel said the renewal process checklist did not include annual review of suspension and debarment, so they did not complete it.

Recommendation #13

We recommend the department enhance and enforce its internal control policy and procedures to ensure compliance with federal suspension and debarment requirements.

Sole Source Procurement

The department purchased equipment without using competitive bidding or the sole source justification form.

Personnel at the department's Montana Mental Health Nursing Care Center purchased two commercial clothes dryers worth $16,300 without using competitive bidding or the sole source justification form. Section 18-4-306(1), MCA, establishes conditions under which sole source procurement is allowable. State policy requires the department to use either competitive bidding or the sole source justification form when purchasing items costing $5,000 or more. Through discussions with department personnel, we believe the decision to purchase the dryers from the company selected through sole source procurement was justified. However, personnel did not follow the documentation requirements of state law and state procurement policy while completing the transaction. Department personnel indicated that facility staff overlooked the requirement.

RECOMMENDATION #14

We recommend the department follow state procurement policy related to sole source purchases.

Physical Inventory of Capital Assets

The department does not take a physical inventory of capital assets every two years as required by state policy.

The Montana Developmental Center, the Montana State Hospital, and the Montana Mental Health Nursing Care Center have not taken a physical inventory of the capital assets and "sensitive equipment" within the past two years. These assets include vehicles, furniture, appliances, computers, and other electronic equipment. State policy requires that an agency take a complete physical inventory of all capital assets, tagged minor equipment, and sensitive equipment at a minimum every two years. Without a periodic physical inventory of equipment assets, there is a higher risk that the loss or theft of assets will not be detected and the accounting records will not reflect the assets actually in service. Subsequent to onsite audit work, the department completed a physical inventory at the Montana State Hospital facility.

RECOMMENDATION #15

We recommend the department conduct physical inventories of capital assets at its facilities every two years in compliance with state policy.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2011 and 2010. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

September 1, 2011

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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2010	$ (29,940,617)	$ 82,496,395	$ (1,003,513)	$ 4,226,602	$ (5,752)	$ 0	$ 0	$ 137,358,897
PROPERTY HELD IN TRUST: July 1, 2010						$ 973,036		
ADDITIONS								
Budgeted Revenues & Transfers-In	24,413,667	51,029,616	1,123,635,365				135,000	1,023,711
Nonbudgeted Revenues & Transfers-In	3,148	2,630,782	158,803,288	2,953,794				20,166,585
Prior Year Revenues & Transfers-In Adjustments	(5,290)	(549,432)	(2,312,096)					
Direct Entries to Fund Balance	308,332,808	93,695,183	2,841,266		2,154,826			
Additions to Property Held in Trust						73,922,341		
Total Additions	332,744,333	146,806,149	1,282,967,822	2,953,794	2,154,826	73,922,341	135,000	21,190,297
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	355,910,306	134,181,072	1,291,544,440		2,158,564		24,286	
Nonbudgeted Expenditures & Transfers-Out	18,296	19,791,195	136,756	2,943,824			51	6,173,036
Prior Year Expenditures & Transfers-Out Adjustments	(356,364)	(767,378)	(2,898,490)					
Reductions in Property Held in Trust						73,890,080		
Total Reductions	355,572,238	153,204,889	1,288,782,706	2,943,824	2,158,564	73,890,080	24,337	6,173,036
FUND BALANCE: June 30, 2011	$ (52,768,522)	$ 76,097,655	$ (6,818,397)	$ 4,236,572	$ (9,490)	$ 0	$ 110,663	$ 152,376,158
PROPERTY HELD IN TRUST: June 30, 2011						$ 1,005,297		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2009	$ (32,089,739)	$ 79,624,992	$ (1,546,905)	$ 4,280,990	$ (49,241)	$ 0	$ 115,475,574
PROPERTY HELD IN TRUST: July 1, 2009						$ 1,597,164	
ADDITIONS							
Budgeted Revenues & Transfers-In	23,763,500	54,164,972	1,093,880,274				438,784
Nonbudgeted Revenues & Transfers-In	50,725	1,866,727	149,799,127	2,889,139			27,043,184
Prior Year Revenues & Transfers-In Adjustments	(176,185)	(60,069)	(13,449,276)				
Direct Entries to Fund Balance	302,795,991	89,102,642	1,813,881		1,063,825		
Additions to Property Held in Trust						81,569,178	
Total Additions	326,434,031	145,074,272	1,232,044,006	2,889,139	1,063,825	81,569,178	27,481,968
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	329,787,217	128,316,172	1,245,971,754		1,020,336		
Nonbudgeted Expenditures & Transfers-Out	922,840	14,901,427	146,555	2,943,527			5,598,645
Prior Year Expenditures & Transfers-Out Adjustments	(6,425,148)	(1,014,730)	(14,617,695)				
Reductions in Property Held in Trust						82,193,306	
Total Reductions	324,284,909	142,202,869	1,231,500,614	2,943,527	1,020,336	82,193,306	5,598,645
FUND BALANCE: June 30, 2010	$ (29,940,617)	$ 82,496,395	$ (1,003,513)	$ 4,226,602	$ (5,752)	$ 0	$ 137,358,897
PROPERTY HELD IN TRUST: June 30, 2010						$ 973,036	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Licenses and Permits	$ 166,855	$ 1,742,838					$ 1,909,693
Charges for Services	20,193,982	15,652,886	$ 3,902				35,850,770
Investment Earnings	112,303	227,734	259	$ 214,489		$ 8,723,032	9,277,817
Monetary Settlements		15,357,089	2,712,359			11,849,960	29,919,408
Sale of Documents, Merchandise and Property	1,704	103,228					104,932
Rentals, Leases and Royalties	764	23,346					24,110
Grants, Contracts, and Donations		7,531,090					7,531,090
Transfers-in	3,905,009	12,751,006	1,332,432	2,739,305	$ 135,000	617,304	21,480,056
Inception of Lease/Installment Contract	(1,865)	16,679					14,814
Federal Indirect Cost Recoveries		3,742	53,463,366				53,467,108
Miscellaneous	23,959	(308,040)	158,595				(125,486)
Federal	8,814	9,368	1,222,455,644				1,222,473,826
Total Revenues & Transfers-In	24,411,525	53,110,966	1,280,126,557	2,953,794	135,000	21,190,296	1,381,928,138
Less: Nonbudgeted Revenues & Transfers-In	3,148	2,630,782	158,803,288	2,953,794		20,166,585	184,557,597
Prior Year Revenues & Transfers-In Adjustments	(5,290)	(549,432)	(2,312,096)				(2,866,818)
Actual Budgeted Revenues & Transfers-In	24,413,667	51,029,616	1,123,635,365	0	135,000	1,023,711	1,200,237,359
Estimated Revenues & Transfers-In	19,189,630	110,662,957	1,555,411,123		186,436	475,000	1,685,925,146
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 5,224,037	$ (59,633,341)	$ (431,775,758)	$ 0	$ (51,436)	$ 548,711	$ (485,687,787)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits	$ 93,182	$ (995,150)					$ (901,968)
Charges for Services	4,881,827	(1,317,945)	$ 3,277				3,567,159
Investment Earnings	102,303	(37,923,448)	(174)			$ 548,711	(37,272,608)
Fines and Forfeits			(5,000)				(5,000)
Monetary Settlements		(2,267,351)	(287,021)				(2,554,372)
Sale of Documents, Merchandise and Property	(96)	(52,721)					(52,817)
Rentals, Leases and Royalties	(642)	(3,652)					(4,294)
Grants, Contracts, and Donations		(795,253)			$ (6)		(795,259)
Transfers-in	1,268,757	(12,888,866)			(51,430)		(11,671,539)
Federal Indirect Cost Recoveries		(152,135)	(108,567,003)				(108,719,138)
Miscellaneous	(120,108)	(3,492,640)	134,773				(3,477,975)
Federal	(1,001,186)	255,820	(323,054,610)				(323,799,976)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 5,224,037	$ (59,633,341)	$ (431,775,758)	$ 0	$ (51,436)	$ 548,711	$ (485,687,787)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	$ 84,102	$ 1,649,534				$ 1,733,636
Charges for Services	22,031,697	17,886,448	$ 3,923			39,922,068
Investment Earnings	24,603	238,301	221	$ 208,988	$ 14,308,928	14,781,041
Fines and Forfeits			7,105			7,105
Monetary Settlements		16,030,050	3,295,953		12,613,175	31,939,178
Sale of Documents, Merchandise and Property	2,559	126,634				129,193
Rentals, Leases and Royalties	938	23,168				24,106
Grants, Contracts, and Donations		4,651,594				4,651,594
Transfers-in	1,590,353	13,647,924	838,458	2,680,151	559,865	19,316,751
Inception of Lease/Installment Contract	47,845	6,348	41,559			95,752
Federal Indirect Cost Recoveries		18,048	52,319,900			52,337,948
Miscellaneous	(147,141)	407,776	154,034			414,669
Federal	3,084	1,285,805	1,173,568,972			1,174,857,861
Total Revenues & Transfers-In	23,638,040	55,971,630	1,230,230,125	2,889,139	27,481,968	1,340,210,902
Less: Nonbudgeted Revenues & Transfers-In	50,725	1,866,727	149,799,127	2,889,139	27,043,184	181,648,902
Prior Year Revenues & Transfers-In Adjustments	(176,185)	(60,069)	(13,449,276)			(13,685,530)
Actual Budgeted Revenues & Transfers-In	23,763,500	54,164,972	1,093,880,274	0	438,784	1,172,247,530
Estimated Revenues & Transfers-In	19,953,630	68,910,500	1,148,330,440		475,000	1,237,669,570
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 3,809,870	$ (14,745,528)	$ (54,450,166)	$ 0	$ (36,216)	$ (65,422,040)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	$ 10,429	$ (335,318)				$ (324,889)
Charges for Services	5,959,193	(841,838)	$ 3,348			5,120,703
Investment Earnings	14,603	(2,505,124)	170		$ (36,216)	(2,526,567)
Fines and Forfeits			2,105			2,105
Monetary Settlements		(3,011,790)	9,367			(3,002,423)
Sale of Documents, Merchandise and Property	759	(49,857)				(49,098)
Rentals, Leases and Royalties	(468)	(1,772,207)				(1,772,675)
Grants, Contracts, and Donations		(1,794,874)				(1,794,874)
Transfers-in	(1,045,899)	(3,892,096)	10,523			(4,927,472)
Federal Indirect Cost Recoveries		1,427	(30,371,635)			(30,370,208)
Miscellaneous	(119,433)	(614,290)	129,822			(603,901)
Federal	(1,009,314)	70,439	(24,233,866)			(25,172,741)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 3,809,870	$ (14,745,528)	$ (54,450,166)	$ 0	$ (36,216)	$ (65,422,040)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADDICTIVE & MENTAL DISORDERS	BUSINESS & FINANCIAL SERVICES DIV	CHILD & FAMILY SERVICES	CHILD SUPPORT ENFORCEMENT	DEVELOPMENTAL SERVICES DIVISION	DIRECTOR'S OFFICE	HEALTH RESOURCES DIVISION	HUMAN AND COMMUNITY SERVICES	MANAGEMENT AND DISABILITY TRANSITIONS	MANAGEMENT AND FAIR HEARINGS	MEDICAID AND HEALTH SERVICES MANAGEMENT	PUBLIC HEALTH & SAFETY DIVISION	QUALITY ASSURANCE DIVISION	SENIOR & LONG-TERM CARE	TECHNOLOGY SERVICES DIVISION	TOTAL
Personal Services																
Salaries	$ 24,251,382	$ 2,530,006	$ 13,740,754	$ 6,251,202	$ 11,926,859	$ 3,412,811	$ 3,161,955	$ 16,057,756	$ 5,824,348	$ 471,630	$ 312,728	$ 8,162,003	$ 4,551,993	$ 7,519,629	$ 3,291,934	$ 111,466,990
Hourly Wages					67,899											67,899
Employee Benefits	10,541,759	867,715	5,238,943	2,283,444	5,516,471	317,456	1,192,601	6,528,947	2,161,962	140,787	84,032	2,879,648	1,629,544	3,470,709	1,038,390	43,892,408
Total	34,793,141	3,397,721	18,979,697	8,534,646	17,511,229	3,730,267	4,354,556	22,586,703	7,986,310	612,417	396,760	11,041,651	6,181,537	10,990,338	4,330,324	155,427,297
Operating Expenses																
Other Services	5,808,699	3,496,812	1,241,366	464,826	3,591,128	492,647	7,615,655	5,625,636	3,486,465	7,815	7,870,172	8,867,567	679,597	4,217,188	26,517,366	79,982,939
Supplies & Materials	4,485,998	175,166	352,150	143,291	1,013,803	61,306	79,537	776,813	350,485	7,393	529	2,425,796	167,063	1,289,903	1,662,138	12,991,374
Communications	191,257	890,880	432,960	407,622	121,271	128,882	439,492	660,105	365,179	3,836	1,797	1,391,217	156,861	111,227	2,433,594	7,736,180
Travel	148,698	6,410	678,106	2,085	356,046	36,651	30,234	194,874	250,982	2,396	7,866	541,344	288,902	89,381	27,331	2,661,306
Rent	686,298	341,598	2,616,025	723,355	394,366	141,523	298,348	2,458,561	774,337	64,868	8,484	690,145	503,763	588,552	284,733	10,574,956
Utilities	1,304,274		1,424		440,196			75,100				11,628		394,925		2,227,547
Repair & Maintenance	972,413	18,210	58,607	39,749	79,633	11,896	25,693	241,700	98,613	143	457	181,000	5,853	568,542	130,382	2,432,891
Other Expenses	2,849,175	(7,845,454)	5,231,576	4,229,124	3,170,325	(3,702,012)	13,481,190	15,880,012	1,268,790	(789,712)	(7,035,710)	2,829,707	(734,215)	1,950,237	(27,269,956)	3,513,077
Goods Purchased For Resale	96,693				8,092							42,615				147,400
Total	16,543,505	(2,916,378)	10,612,214	6,010,052	9,174,860	(2,829,107)	21,970,149	25,912,801	6,594,854	(703,261)	853,595	16,981,019	1,067,824	9,209,955	3,785,588	122,267,670
Equipment & Intangible Assets																
Equipment	25,121	(18)	13,628		11,000			191,734	12,690			424,115		95,643	270,870	1,044,783
Capital leases - equipment	(1,815)													16,679		14,864
Intangible Assets															76,944	76,944
Total	23,306	(18)	13,628		11,000			191,734	12,690			424,115		112,322	347,814	1,136,591
Capital Outlay																
Total																
Local Assistance																
From State Sources	1,891,636															1,891,636
Total	1,891,636															1,891,636
Grants																
From State Sources	2,252,292						344,046	5,054,045				5,646,488		2,979,017	357,000	16,632,888
From Federal Sources	3,744,253		5,786,156		42,627			14,808,710				16,984,390	568,959	8,546,440		50,481,535
From Other Sources												1,288,084				1,288,084
Grant To Governmental Entities												493,121				493,121
Grant To Non-Governmental Ent												144,463				144,463
Total	5,996,545		5,786,156		42,627		344,046	19,862,755				24,556,546	568,959	11,525,457	357,000	69,040,091
Benefits & Claims																
To Individuals	63,103,465		29,189,664		179,839,035		575,848,487	90,262,264	12,250,549			3,440,770		253,297,142		1,207,231,376
From State Sources														25,012		25,012
From Federal Sources								200,499,210				10,665,418				211,164,628
Total	63,103,465		29,189,664		179,839,035		575,848,487	290,761,474	12,250,549			14,106,188		253,322,154		1,418,421,016
Transfers-out																
Fund transfers	1,759,513	6,173,036			979,793		20,824,265	3,828,282	1,786			89,713		3,904,879		37,561,267
Total	1,759,513	6,173,036			979,793		20,824,265	3,828,282	1,786			89,713		3,904,879		37,561,267
Debt Service																
Bonds	1,919,161				1,024,663											2,943,824
Capital Leases			1,543											11,290	91,267	104,100
Installment Purchases	3,629	5,675	10,891												45,907	66,102
Total	1,922,790	5,675	12,434		1,024,663									11,290	137,174	3,114,026
Total Expenditures & Transfers-Out	$ 126,033,901	$ 6,660,036	$ 64,593,793	$ 14,544,698	$ 208,583,207	$ 901,160	$ 623,341,503	$ 363,143,749	$ 26,846,189	$ (90,844)	$ 1,250,355	$ 67,199,232	$ 7,818,320	$ 289,076,395	$ 8,957,900	$ 1,808,859,594
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund	$ 60,894,962	$ 354,449	$ 34,030,879	$ 3,978,583	$ 60,432,530	$ 148,058	$ 101,030,114	$ 34,953,070	$ 5,480,059	$ (31,189)	$ 151,405	$ 3,950,588	$ 1,658,528	$ 45,261,433	$ 3,278,769	$ 355,572,238
State Special Revenue Fund	14,469,106	1,721	2,695,791	1,492,251	7,910,857	104,783	67,334,231	3,239,996	967,629	(12,506)	(15,196)	17,909,601	897,998	36,319,384	(110,757)	153,204,889
Federal Special Revenue Fund	48,726,335	130,830	27,865,852	9,073,864	139,215,157	648,319	454,977,158	322,397,225	20,398,501	(47,149)	1,114,146	45,339,043	5,261,794	207,495,578	6,186,053	1,288,782,706
Debt Service Fund	1,919,161				1,024,663											2,943,824
Capital Projects Fund			1,271					2,553,458							(396,165)	2,158,564
Private Purpose Trust Fund	24,337															24,337
Permanent Fund		6,173,036														6,173,036
Total Expenditures & Transfers-Out	126,033,901	6,660,036	64,593,793	14,544,698	208,583,207	901,160	623,341,503	363,143,749	26,846,189	(90,844)	1,250,355	67,199,232	7,818,320	289,076,395	8,957,900	1,808,859,594
Less: Nonbudgeted Expenditures & Transfers-Out	4,618,530	(2,471,952)	5,232,253	3,974,407	3,117,880	(4,113,940)	26,975,543	18,433,867	1,052,882	(695,111)	(6,942,920)	2,580,362	(742,056)	5,496,193	(27,452,782)	29,063,156
Prior Year Expenditures & Transfers-Out Adjustments	108,197	11,830	(707,128)	(34,966)	(2,455,762)	354,603	2,467,551	(2,834,728)	(408,502)	(95,281)	(99,922)	230,262	6,764	(676,195)	111,045	(4,022,232)
Actual Budgeted Expenditures & Transfers-Out	121,307,174	9,120,158	60,068,668	10,605,257	207,921,089	4,660,497	593,898,409	347,544,610	26,201,809	699,548	8,293,197	64,388,608	8,553,612	284,256,397	36,299,637	1,783,818,670
Budget Authority	133,782,201	9,524,619	63,043,003	11,423,494	217,000,471	4,965,073	787,094,782	397,475,385	29,860,998	759,863	8,405,526	76,206,394	9,361,511	292,449,454	83,011,998	2,124,364,772
Unspent Budget Authority	$ 12,475,027	$ 404,461	$ 2,974,335	$ 818,237	$ 9,079,382	$ 304,576	$ 193,196,373	$ 49,930,775	$ 3,659,189	$ 60,315	$ 112,329	$ 11,817,786	$ 807,899	$ 8,193,057	$ 46,712,361	$ 340,546,102
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund	$ 3,590,003	$ 180,023	$ 779,535	$ 161,331	$ 2,706,154	$ 186,871	$ 27,303,911	$ 1,720,818	$ 315,440	$ 6,529	$ 45,370	$ 154,000	$ 201,806	$ 4,406,159	$ 200,291	$ 41,958,241
State Special Revenue Fund	4,367,093	58,109	296,410	454,216	59,698	24,305	16,289,781	461,074	1,702,566	5,664	16,444	1,529,954	40,371	935,375	502	26,241,562
Federal Special Revenue Fund	4,355,781	166,329	1,898,390	202,690	6,313,530	93,400	149,602,681	47,748,883	1,641,183	48,122	50,515	10,133,832	565,722	2,851,523	35,994,152	261,666,733
Capital Projects Fund															10,517,416	10,517,416
Private Purpose Trust Fund	162,150															162,150
Unspent Budget Authority	$ 12,475,027	$ 404,461	$ 2,974,335	$ 818,237	$ 9,079,382	$ 304,576	$ 193,196,373	$ 49,930,775	$ 3,659,189	$ 60,315	$ 112,329	$ 11,817,786	$ 807,899	$ 8,193,057	$ 46,712,361	$ 340,546,102

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	ADDICTIVE & MENTAL DISORDERS	BUSINESS & FINANCIAL SERVICES DIVISION	CHILD & FAMILY SERVICES	CHILD SUPPORT ENFORCEMENT	DEVELOPMENTAL SERVICES DIVISION	DIRECTOR'S OFFICE	HEALTH RESOURCES DIVISION	HUMAN AND COMMUNITY SERVICES	MANAGEMENT AND DISABILITY TRANSITIONS	MANAGEMENT AND FAIR HEARINGS	MEDICAID AND HEALTH SERVICES MANAGEMENT	PUBLIC HEALTH & SAFETY DIVISION	QUALITY ASSURANCE DIVISION	SENIOR & LONG-TERM CARE	TECHNOLOGY SERVICES DIVISION	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																
Personal Services																
Salaries	24,337,935	2,412,826	14,016,626	6,631,555	12,363,315	3,285,063	3,009,058	16,480,065	6,068,832	724,919	350,624	8,374,982	4,673,529	7,511,311	3,839,957	114,080,597
Hourly Wages					16,519			292								16,811
Employee Benefits	10,474,359	787,934	5,128,040	2,320,498	5,626,832	591,665	988,503	6,246,666	2,123,579	210,590	93,948	2,807,380	1,601,607	3,382,933	1,172,600	43,557,134
Total	34,812,294	3,200,760	19,144,666	8,952,053	18,006,666	3,876,728	3,997,561	22,727,023	8,192,411	935,509	444,572	11,182,362	6,275,136	10,894,244	5,012,557	157,654,542
Operating Expenses																
Other Services	5,845,758	3,470,911	1,321,185	443,818	3,255,862	692,423	7,534,683	3,930,021	3,606,719	50,059	7,460,970	10,157,769	629,333	4,088,551	14,841,729	67,329,791
Supplies & Materials	4,247,398	97,352	290,019	106,836	721,898	21,224	83,173	767,903	486,375	12,336	594	2,394,590	137,780	1,307,679	1,166,149	11,841,306
Communications	168,015	862,466	530,362	414,389	120,808	105,301	157,163	719,250	259,382	5,052	1,838	1,946,358	123,486	166,036	2,675,165	8,255,071
Travel	214,261	5,869	603,484	3,498	363,093	60,330	53,156	262,211	217,695	10,224	2,855	625,586	288,371	102,743	32,388	2,845,764
Rent	738,245	310,724	2,605,153	747,965	392,519	165,277	264,740	2,403,450	781,016	57,069	12,188	678,168	511,621	536,398	321,087	10,525,620
Utilities	1,091,490	12	1,649		365,776			70,081	12			28,769	579	239,212		1,797,580
Repair & Maintenance	681,995	19,596	50,778	26,527	73,572	8,688	24,595	143,764	197,570	2,204	502	230,189	8,256	742,342	147,859	2,358,437
Other Expenses	3,247,234	(7,664,408)	6,707,439	4,623,746	3,511,016	(4,442,638)	13,070,684	14,207,944	1,098,603	(977,322)	(7,587,107)	2,991,833	(433,863)	1,886,021	(24,976,201)	5,262,981
Goods Purchased For Resale	112,352				11,576											123,928
Total	16,346,748	(2,897,478)	12,110,069	6,366,779	8,816,120	(3,389,395)	21,188,194	22,504,624	6,647,372	(840,378)	(108,160)	19,053,262	1,265,563	9,068,982	(5,791,824)	110,340,478
Equipment & Intangible Assets																
Equipment	74,628	9,653	14,240				2,950	80,600				267,886		110,568	90,237	650,762
Capital leases - equipment	18,014														84,866	102,880
Intangible Assets												10,500		21,735		32,235
Total	92,642	9,653	14,240				2,950	80,600				278,386		132,303	175,103	785,877
Local Assistance																
From State Sources	1,746,857															1,746,857
Total	1,746,857															1,746,857
Grants																
From State Sources	1,938,725						(75,364)	7,965,844				5,442,059		3,037,244	307,000	18,615,508
From Federal Sources	3,957,219		6,334,476		542,247		3,175	17,079,270				20,009,786	554,578	8,820,326		57,301,077
From Other Sources												529,356				529,356
Grant To Governmental Entities												1,539,724				1,539,724
Grant To Non-Governmental Ent												886,724				886,724
Total	5,895,944		6,334,476		542,247		(72,189)	25,045,114				28,407,649	554,578	11,857,570	307,000	78,872,389
Benefits & Claims																
To Individuals	59,722,945		29,126,535		178,169,451		516,672,722	96,582,960	12,894,095			5,629,680		238,476,140		1,137,274,528
From State Sources														38,149		38,149
From Federal Sources								179,277,563				8,377,351				187,654,914
Total	59,722,945		29,126,535		178,169,451		516,672,722	275,860,523	12,894,095			14,007,031		238,514,289		1,324,967,591
Transfers-out																
Fund transfers	1,691,252	5,598,645			988,899		19,871,708	147,000						1,590,230		29,887,734
Total	1,691,252	5,598,645			988,899		19,871,708	147,000						1,590,230		29,887,734
Debt Service																
Bonds	1,920,944				1,022,585											2,943,529
Capital Leases			1,672											11,485	97,289	110,446
Installment Purchases	1,620	5,675	129,241	59,014											45,907	241,457
Total	1,922,564	5,675	130,913	59,014	1,022,585									11,485	143,196	3,295,432
Total Expenditures & Transfers-Out	$ 122,231,246	$ 5,917,255	$ 66,860,899	$ 15,377,846	$ 207,545,968	$ 487,333	$ 561,660,946	$ 346,364,884	$ 27,733,878	$ 95,131	$ 336,412	$ 72,928,690	$ 8,095,277	$ 272,069,103	$ (153,968)	$ 1,707,550,900
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund	$ 59,267,711	$ 353,433	$ 34,199,070	$ 2,735,641	$ 56,130,837	$ (107,272)	$ 82,119,837	$ 37,745,733	$ 5,489,856	$ 38,609	$ 68,892	$ 3,733,825	$ 2,134,945	$ 39,763,850	$ 609,942	$ 324,284,909
State Special Revenue Fund	15,197,849	(4,386)	2,664,196	2,622,195	7,015,591	108,509	60,414,585	2,750,267	917,982	9,313	5,476	18,693,280	417,256	31,589,395	(198,639)	142,202,869
Federal Special Revenue Fund	45,844,744	(30,437)	29,563,407	10,020,010	143,376,955	486,096	418,681,795	305,333,302	21,326,040	47,209	262,044	50,501,585	5,543,076	200,715,858	(171,070)	1,231,500,614
Debt Service Fund	1,920,942				1,022,585											2,943,527
Capital Projects Fund			434,226				444,729	535,582							(394,201)	1,020,336
Permanent Fund		5,598,645														5,598,645
Total Expenditures & Transfers-Out	122,231,246	5,917,255	66,860,899	15,377,846	207,545,968	487,333	561,660,946	346,364,884	27,733,878	95,131	336,412	72,928,690	8,095,277	272,069,103	(153,968)	1,707,550,900
Less: Nonbudgeted Expenditures & Transfers-Out	4,921,284	(2,632,784)	6,804,180	4,483,204	3,602,815	(4,619,550)	24,399,339	14,957,337	973,617	(978,442)	(7,598,732)	2,665,741	(455,229)	3,089,097	(25,098,883)	24,512,994
Prior Year Expenditures & Transfers-Out Adjustments	(3,686,565)	17,561	(814,549)	(144,116)	(942,634)	48,453	(11,975,225)	(2,105,891)				(340,698)	(1,913)	(2,000,726)	(111,270)	(22,057,573)
Actual Budgeted Expenditures & Transfers-Out	120,996,527	8,532,478	60,871,268	11,038,758	204,885,787	5,058,430	549,236,832	333,513,438	26,760,261	1,073,573	7,935,144	70,603,647	8,552,419	270,980,732	25,056,185	1,705,095,479
Budget Authority	131,743,554	9,134,585	62,141,461	12,013,077	208,119,836	5,320,694	711,963,537	364,130,020	29,410,861	1,087,733	7,987,252	79,113,454	9,183,560	276,649,872	81,476,958	1,989,476,454
Unspent Budget Authority	$ 10,747,027	$ 602,107	$ 1,270,193	$ 974,319	$ 3,234,049	$ 262,264	$ 162,726,705	$ 30,616,582	$ 2,650,600	$ 14,160	$ 52,108	$ 8,509,807	$ 631,141	$ 5,669,140	$ 56,420,773	$ 284,380,975
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund	$ 2,792,508	$ 156,018	$ 368,724	$ 125,451	$ 1,159,547	$ 185,206	$ 8,410,777	$ 388,930	$ 68,270	$ 8,198	$ 25,671	$ 139,342	$ 24,777	$ 1,213,341	$ 251,792	$ 15,318,552
State Special Revenue Fund	1,915,249	62,169	14,310	14,166	93,258	6,725	25,365,945	195,917	989,439	2,541	1,085	405,081	12,985	2,149,727	167,638	31,396,235
Federal Special Revenue Fund	6,039,270	383,920	887,159	834,702	1,981,244	70,333	128,949,983	30,031,735	1,592,891	3,421	25,352	7,965,384	593,379	2,306,072	43,325,363	224,990,208
Capital Projects Fund															12,675,980	12,675,980
Unspent Budget Authority	$ 10,747,027	$ 602,107	$ 1,270,193	$ 974,319	$ 3,234,049	$ 262,264	$ 162,726,705	$ 30,616,582	$ 2,650,600	$ 14,160	$ 52,108	$ 8,509,807	$ 631,141	$ 5,669,140	$ 56,420,773	$ 284,380,975

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Public Health and Human Services
Notes to the Financial Schedules
For the Fiscal Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Debt Service, Capital Projects, and Permanent). In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Fiduciary fund categories (Private Purpose Trust and Agency). The activity in the Agency Fund consists of additions and reductions to Property Held in Trust.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes.

Department State Special Revenue Funds include programs such as Child Support Enforcement, cigarette tax expenditures, Public Health Laboratory, Healthy Montana Kids, medical marijuana license fees, and third party liability recoveries. The fund also accounts for activity at the Montana Developmental Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center, and the Montana State Hospital supported by insurance and individual payments.

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal grants such as Medicaid; Temporary Assistance to Needy Families; Low-Income Home Energy Assistance Program; Weatherization Assistance Program; Vocational Rehabilitation; Child Support Enforcement; Foster Care; Women, Infants, and Children; Supplemental Nutrition Assistance Program; Child and Adult Nutrition; Children's Health Insurance Plan; Social Services Block Grant; Adoption Assistance; Center for Disease Control; Substance Abuse, Prevention and Treatment; and Child Care Development Fund Grant programs.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department accounts for the Montana State Hospital and Montana Developmental Center bond payments in this fund.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for major Information Technology systems.
- **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department accounts for Endowment for Children, Older Montanans Trust, and the Montana Tobacco Settlement activity in this fund.

Fiduciary Fund Category

- **Private Purpose Trust Fund** – to account for proceeds received from the Montana Mental Health Trust account and used for suicide prevention activities.
- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department uses Agency Funds to account for child support payments collected on behalf of children and distributed to custodial parents or guardians. Agency Funds also include moneys belonging to foster care children, residents of care facilities, and damage deposits for departmental housing.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for the fiscal years ended June 30, 2011, and June 30, 2010.

3. Direct Entries to Fund Balance

The department recorded $308,332,808 and $302,795,991 of direct entries to fund balance in the General Fund during fiscal years 2010-11, and 2009-10, respectively. Most of the direct entries to fund balance in the General Fund result from entries generated by Statewide Accounting, Budgeting and Human Resource System (SABHRS) to reflect the flow of resources within the fund between separate agencies. Direct entries to fund balances in the State Special Revenue Fund and Capital Projects Fund resulted from entries generated by SABHRS to reflect the flow of resources within the fund between separate agencies. State Special Revenue Fund activities include earmarked alcohol funds, cigarette tax, tobacco health, Medicaid hospital and nursing home utilization, and handicapped telecommunications. Capital Projects Fund activity consists of Information Systems Enhancements.

4. Nonbudgeted Activity

The department recorded Nonbudgeted Revenues and Transfers-In related to food stamp benefits of $158 million and $149 million in the Federal Special Revenue Fund in fiscal years 2010-11, and 2009-10, respectively. Expenditure abatements (negative amounts) in the "Other Expenses" Operating Expenses account category are related to the department's cost allocation plan for fiscal years 2010-11, and 2009-10.

5. Child Support Payments in the Agency Fund

The child support payments collected on behalf of children and distributed to custodial parents account for the majority of activity recorded as Property Held in Trust (PHIT) as shown in the Agency Fund. The additions to PHIT are $73,922,341 and $81,569,178, and the reductions to PHIT are $73,890,080 and $82,193,306, in fiscal years 2010-11 and 2009-10, respectively.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery. The department received federal ARRA funding totaling $352,925,158. Of these amounts, $137,951,704 and $145,131,379 were expended in fiscal years 2010-11 and 2009-10. Nonmonetary assistance in the form of Food Commodities distributions of $130,904 occurred in 2009-10.

7. Contingencies

The Blanton v. DPHHS class action lawsuit challenges the validity of the department's liens on third party settlements received by Medicaid recipients to reimburse them for injuries for which Medicaid has paid medical expenses. The loss could range from $3 million to $12 million dollars and has not been recorded in the financial schedules.

Department of Public Health and Human Services

Department Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES

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GOVERNOR

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Ms. Tori Hunthausen
Legislative Auditor
Office of the Legislative Auditor
State Capitol, Room 160
Helena, Montana 59620-1705

RECEIVED
OCT 18 2011
LEGISLATIVE AUDIT DIV.

Re: Financial Compliance Audit 2011

Dear Ms. Hunthausen:

Thank you for the opportunity to submit a response to the Financial-Compliance Audit for the Two Fiscal Years Ended June 30, 2011. The dedicated employees of the Department of Public Health and Human Services (department) have already implemented improvement plans addressing 9 of the 15 recommendations. Staff will continue to evaluate and implement the remaining recommendations in a cost effective manner.

Following you will find our response to each recommendation identified in the report.

Recommendation #1

We recommend the department:

A. Expend money from the state treasury using appropriation authority approved by law as required by the Montana Constitution
B. Charge expenditures to the programs and funds against the appropriation authority approved for the expenditure made.

Response: Concur

Status: Implemented

Actions Completed:

The department has incorporated this topic into the Business and Financial Services Division's (BFSD) annual Budget and Finance Continual Improvement Process. Changes made in conjunction with other department improvement efforts have nullified the need for these temporary transactions. Department policy has been updated to reflect the improved business processes.

Recommendation #2

We recommend the department establish procedures for management approval of high dollar repayments to federal assistance programs.

Response: Concur

Status: Implemented

Actions Completed:

The BFSD Fiscal Operations Bureau Chief has issued a procedure memo clarifying authority levels for issuing grant repayments.

Recommendation #3

We recommend the department obtain time verification for each tribal employee whose position is funded by Title IV-E money as required by foster care case management contracts.

Response: Concur

Status: In-Progress

Actions To Be Completed:

The department will work with the Tribes, and if appropriate, the Division of Cost Allocation within the Department of Health and Human Services to identify time verification methods that meet the needs of all involved. If appropriate, contracts or task orders will be amended.

Recommendation #4

We recommend the department enforce provisions of its contract with TANF subrecipients regarding submission of a program improvement plan and evaluation of progress in implementing the plan.

Response: Concur

Status: Implemented

Actions Completed:

The department has strengthened program improvement language in applicable contracts. The TANF Program Manager will ensure that both program and fiscal monitors require and enforce program improvement plan submission and progress evaluations in accordance with the timeframes outlined in the contract(s).

Recommendation #5

We recommend the department:

A. Reestablish the requirement for reviews of TANF eligibility information input by case workers.
B. Implement a control to ensure that assistance to the family is reduced or terminated when an individual refuses to engage in required work.

Response: Concur

Status: Implemented

Actions Completed:
The TANF program has reinstated the requirement of supervisory reviews for TANF cases effective November 1, 2011. Policy clarification regarding establishment of overpayments of continued benefits following a sanction fair hearing has been communicated to all affected staff.

Recommendation #6
We recommend the department:
A. Complete the monitoring of administering agencies as required by the state plan.
B. Submit administering agencies' onsite monitoring reports within the 30 day timeframe required by federal regulations.

Response: Concur

Status: Implemented

Actions Completed:
The Human and Community Services Division (HCSD) has clarified operating procedures. The monitoring will be completed in the time frame outlined in the state plan, and the monitoring reports will be submitted to the awarding agencies within the 30 day federal guideline.

Recommendation #7
We recommend the department implement procedures to recover LIEAP overpayments identified in corrective action plans from it administering agencies.

Response: Concur

Status: Implemented

Actions Completed:
HCSD has implemented additional procedures to ensure overpayments are recovered in a timely fashion.

Recommendation #8
We recommend the department implement internal controls over calculating and compiling financial information supporting carryforward to ensure compliance with federal regulations.

Response: Concur

Status: Implemented

Actions Completed:
The Human and Community Services Division has implemented additional review procedures to ensure reported expenditures, obligations, carryforwards and their related documentation are in sync by September 30th of each year.

Recommendation #9

We recommend the department comply with the federal ARRA requirement to disclose the federal grant award number to subrecipients.

Response: Concur

Status: In-progress

Actions To Be Completed:

The department is currently completing a review of department procurement policies and processes, including procurements completed via contract. Following this review, the department will implement agency wide changes in policies, procedures and/or processes that will increase the consistency of regulatory compliance.

Recommendation #10

We recommend the department:

A. Submit financial reports for the vocational rehabilitation grant in the timeframe required by federal regulations.
B. Report information for the vocational rehabilitation grant supported by the state's accounting records.
C. Document internal controls associated with financial operations of its vocation rehabilitation grant in writing as required by state accounting policy

Response: Concur

Status: In-progress

Actions To Be Completed:

The department is currently reviewing all procedures for completing the vocational rehabilitation financial reports. Procedures will be upgraded and/or developed as needed to ensure that reports are completed accurately and timely.

Recommendation #11

We recommend the department:

A. Use nongeneral fund money before general fund money as required by state law.
B. Record payments from Social Security Administration as revenue when received as required by state accounting policy.

Response: Concur

Status: In-progress

Actions Completed:

Operating procedures guiding revenue accrual and deferral have been reviewed to ensure that the payments from the Social Security Administration will continue to be recorded as revenue.

Actions To Be Completed:

The department will review and modify maintenance-of-effort and matching procedures to ensure that non-general fund appropriations are used prior to general fund appropriations whenever possible.

Recommendation #12
We recommend the department follow its control procedures for safeguarding EBT cards to maintain compliance with federal requirements.

Response: Concur

Status: Implemented

Actions Completed:
The EBT Program Manager has clarified responsibilities, ensuring that two persons perform the control duties and sign the log.

Recommendation #13
We recommend the department enhance and enforce its internal control policy and procedures to ensure compliance with federal suspension and debarment requirements within its divisions.

Response: Concur

Status: In-progress

Actions Completed:
The department policy has been re-distributed to all financial and contract staff across the department.

Actions To Be Completed:
The department is currently completing a review of department procurement policies and processes, including procurements completed via contract. Following this review, the department will implement agency wide changes in policies, procedures and/or processes that will increase the consistency of regulatory compliance.

Recommendation #14
We recommend the department follow state procurement policy related to sole source purchases,

Response: Concur

Status: Implemented

Actions Completed:
The facility financial officer clarified the requirement with the purchasing agent. The applicable operating procedure has been modified to require that purchase orders are reviewed by the financial officer prior to execution.

Recommendation #15
We recommend the department conduct physical inventories of capital assets at its institutions every two years in compliance with state policy.

Response: Concur

Status: In-progress

Actions To Be Completed:
All identified facilities are completing their capital asset inventories and reviewing their operating procedures to ensure the inventories occur on a regularly scheduled basis.

If you have any questions regarding our response, please contact Marie Matthews, Business and Financial Services Division Administrator at 406 (444-9407).

Sincerely,

Mary E. Dalton acting for

Anna Whiting Sorrell, Director
Department of Public Health and Human Services